



Energy

Cobalt International Energy



Credit Research

May 3, 2017

Price: \$0.37 (05/2/2017)

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Key Data

Symbol	NYSE: CIE
Market Cap (MM)	\$166.6

Company Note

Shenandoah Results A Negative

The Cowen Insight

Anadarko's news yesterday afternoon on Shenandoah, combined with weak oil prices and Cobalt's bonds trading within ~10% of recent highs, leads us to believe that Cobalt bonds are likely to trade down in coming days from yesterday's levels. We believe the bonds are all generally now in the realm of fair to fully valued and that there are better values elsewhere in energy.

The 2 5/8% Convert TRACED yesterday at \$38.75 (45.4% YTW) and the 10.75% 1L's TRACED in the high \$90's (mid 11% YTW). The 3 1/8% Converts had been just under \$30 recently (~25% YTW) and the 7 3/4% 2L's had been in the \$64 ballpark (17.1% YTW). The 1L's are close to recent highs and the other three bonds are all within 10% or so.

It is important to point out that this will be a fluid situation, as might be our view, with Anadarko's earnings call at 9 AM EST on 05/03/17, Cobalt's earnings release and conference call on 05/08/17, and the company's bonds likely to remain volatile. We should also point out that nothing negative has occurred with respect to North Platte and Anchor, both of which had already been known to be more important than Shenandoah (certain news, discussed below, has actually been positive with respect to Anchor).

Valuation/asset coverage is clearly an imprecise exercise for Cobalt, but based on the aforementioned factors and the potential for sentiment to be weak, we just don't have conviction in the bonds/see a reason to be involved at current levels. April 25th was our most recent note where we updated our leverage metrics in terms of debt/barrel. Hopefully we can update that table again based on any details that come out of Cobalt's upcoming earnings.

Shenandoah

We and our equity colleague Charles Robertson II, who covers Anadarko, both believe that Anadarko put out disappointing news yesterday afternoon with respect to Shenandoah. Anadarko, the operator at Shenandoah, announced in yesterday's earnings release that it recently completed drilling operations at the Shenandoah-6 appraisal and sidetrack wells, "which did not encounter the oil-water contact in the eastern portion of the field. The company has currently suspended appraisal activity in the field while it evaluates the path forward." The fact that the appraisal well was a disappointment became apparent in March when partner Cobalt released its Q4 results. However, the sidetrack well results is new news and we believe will be a disappointment to Cobalt investors, as the field is likely smaller/less economic than folks expected a few months ago.

Per the 10Q, Anadarko took a \$467 million impairment on Shenandoah in Q1. Note 5 in the 10-Q puts in doubt "the economic or operational viability" of the project. The 10-Q states that "given the results of this well and the present commodity-price environment, the company has currently suspended further appraisal activities. Accordingly, the company determined that the Shenandoah project no longer satisfies the accounting requirements for the continued capitalization of the exploratory well costs." We think there's a meaningful chance that Anadarko will not remain active on the prospect within the 180 day window and that the lease is lost.



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The market knew previously that Shenandoah was less valuable than the North Platte or Anchor prospects in the Gulf of Mexico. However, we believe that Cobalt and the market (including us) had been hoping that its 20% Shenandoah stake, which is for sale, would generate material proceeds (\$100 - \$200 million, possibly more). After the latest news, however, we would not ascribe any meaningful value to Shenandoah.

North Platte and Anchor

Recall that the company has discussed previously that North Platte represents 300 million of the company's 500 million barrels of net risked resource in the Gulf of Mexico. Producing field Heidleberg probably represented a couple tens of millions or less, with Shenandoah and Anchor making up the rest. Shenandoah was previously considered sizable but there was little visibility provided on the relative size of it versus Anchor. Based on the latest Shenandoah news, there may be downside to the 500 million net figure for the Gulf.

We continue to believe that the company can monetize North Platte, likely at a very material value, but the margin for error has now decreased. As for Anchor, while that's not for sale yet, we note that there was somewhat positive news from Upstream recently. Upstream reported that Chevron will probably move forward with Anchor in terms of facility designs. If the oil price cooperates, our equity colleague Sam Margolin, who covers Chevron, believes that Anchor could be sanctioned by YE18.

Valuation Methodology And Risks

Valuation Methodology

Credit & Cross Capital:

Our valuation is based on a number of factors, including but not limited to, an issuer's underlying business prospects and credit profile as well as current market conditions. Our view of an issuer's business outlook includes, but is not limited to: (1) an assessment of relevant industry trends, (2) the issuer's position within its industry and how its position might change over time, (3) management's strategy and the likelihood that management will be able to execute its strategy. Our view of the issuer's credit profile includes, but is not limited to, the issuer's: (1) overall leverage as well as the composition of its leverage, (2) liquidity and its ability to meet its obligations as they come due, and (3) the value of its assets. Our valuation of a specific security includes, but is not limited to: (1) the potential recovery in a variety of scenarios, including financial restructurings, and the probability of each, and (2) its liquidity relative to other securities. Our valuation contemplates a variety of capital market environments.

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Addendum

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Ticker	Company Name
CIE	Cobalt International Energy

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